C2710-2

©Entire contents copyright 1990 by Crain Communications Inc. All rights reserved

August 6, 1990

#980E**********5-DIGIT 20814
ZIZ
#040526692 5#01PI01626 99
STATISTICAL REFERENCE INDEX
4520 EAST-WEST HWY SU 800
BETHESDA MD 20814

Pensions & Investments

The Newspaper of Corporate and Institutional Investing

$8 An Issue / $127 A Year

AT DEADLINE

Nevada boosts commitment

The Nevada Public Employees' Retirement System has contributed another $31 million to Core Group Trust for real estate investments by four public funds including Nevada. The assets will be invested in an Arlington, Va., retail property.

California OKs investment

California Public Employees' Retirement System trustees approved investment in index participation notes, an alternative to international indexing funds. No investment has been made yet.

Oppenheimer to be acquired

Oppenheimer Management will be acquired for $150 million by senior management and Massachusetts Mutual Life Insurance Co. from British & Commonwealth Holdings PLC. Oppenheimer, one of the largest U.S. mutual fund companies with more than $14 billion, will continue to operate independently and retain its key management.

Union approves ADRs

The $780 million Graphic Communications Supplemental Retirement and Disability Fund has decided to invest in American depository receipts and has upped its allocation to guaranteed investment contracts.

The investments will be made as part of a $162 million balanced portfolio now managed by Lazard Freres Asset Management, which will have discretion over the amount invested in ADRs.

The fund also gave an additional $14 million to T. Rowe Price Guaranteed Asset Advisers Inc., bringing the total value of the GIC portfolio to $50 million.

Custody operations melded

The $52 billion global custody and master trust operation of Harris Trust & Savings has been merged with its parent, Bank of Montreal. The Bank of Montreal Global Custody will service more than $12 billion in international assets and $175 billion from North America. The merger follows the departures of Gary Rothman, manager of master trust, and Richard Caldwell, head of the trust department.

Willens quits Shearson

Robert Willens, a tax and accounting senior vice president at Shearson Lehman Hutton Inc., has rejoined KPMG Peat Marwick as a partner in charge of professional services. He left Peat Marwick for Shearson in 1987.

AIA buys jeweler's debt

CJC Holdings, a jewelry manufacturer, privately placed $5 million of new subordinated debt with Teachers Insurance & Annuity Association as part of a $65 million recapitalization and refinancing of debt associated with the company's 1988 leveraged buy-out.

Photo by Rick Dole

The Inverrary Hotel is the biggest real estate problem of the Operating Engineers Local 675 pension fund.

Union's investments spark DOL lawsuit

By Joel Chernoff

Trustees of a South Florida multiemployer pension fund have invested 95% of plan assets in highly leveraged and poor performing real estate concentrated in one county, the Department of Labor alleges in a lawsuit.

The case, involving the Operating Engineers Local 675 pension and health and welfare funds in Pompano Beach, Fla., marks an important step in the department's campaign against social investing by union pension funds. By investing in union-only real estate projects, building and construction trade funds have created jobs for their members.

What's more, the litigation represents the department's second attempt to clamp down on the social investing activities of the Operating Engineers fund, whose board of trustees is chaired by Dennis Walton, an outspoken advocate of job-creating investments by union funds.

The Labor Department lost a major lawsuit against the fund's trustees for allegedly improper social investing practices in the mid-1980s.

The department has charged the pension fund has concentrated 95% of its $62 million in assets in risky real estate ventures in Broward County, home of the union local, in violation of the

See **Union** *on page 27*

Liquidity crunch hits realty funds

Participants withdraw $1.9 billion

By Steve Hemmerick

Institutional investors want to withdraw more than $1.9 billion from open-end commingled real estate funds.

Some withdrawal requests are mounting amid fears the appraised values of commingled fund properties are inflated. Some pension fund executives and trustees believe if they exit the commingled funds quickly enough, they will get out before any more writedowns deflate the appraised values.

Other reasons some investors are leaving open-end funds are to move to direct real estate investing or to reduce their funds' allocation to real estate.

But many investors will have to wait for about a year to get their money — about four times longer than expected — because the money managers sponsoring the funds have little cash on hand to meet the withdrawal requests.

Among the funds facing withdrawal requests are Aetna Capital Management's $1.6 billion Real Estate Separate Account; Phoenix Mutual Life's $350 million Real Estate Separate Account; Sentinel Real Estate Corp.'s $850 million SRE Real Estate Fund; Copley Real Estate Advisors' $1.2 billion Developmental Properties Account; Bank of Boston's $213 million Pooled Real Estate Investment Fund; and First Wachovia Corp.'s Real Estate Fund.

In fact, heavy withdrawal requests sparked the liquidation of at least two insurance company commingled realty funds.

John Hancock's Equity Real Estate Account, which had about $600 million in assets in 1987, is down to about $35 million, according to Kevin McGuire, president of John Hancock Properties Inc., Boston.

Considering the state of the real estate market, Mr. McGuire said he is pleased about the sell-off, adding the firm was able to get good prices for the properties.

Travelers Corp.'s Separate Account R also is in liquidation proceedings, which were announced last January, said Mark Robinson, a spokesman for Travelers. There are 146 institutional investors in Separate Account R.

Some managers are slowing the process by refusing to sell properties at bargain-basement prices in a buyers' market. Others are switching to pro-rata, instead of first-come first-served, systems for meeting withdrawal requests.

Selling at fire-sale prices would hurt investors who remain in the open-end funds, notes Nori Gerardo, a consultant with Pension Consulting Alliance, Glendale, Calif.

Indeed, real estate money managers are grappling with two problems: balancing the interests of clients who remain with those

See **Withdrawals** *on page 30*

U.K. firm extends rights to U.S. investors

By Marcia Parker

Now that Britain's Attwoods Group has succeeded in breaking the barriers that once left U.S. shareholders short on rights offerings, more foreign companies are expected to follow suit.

U.S. institutional investors welcome the move, saying it will put them on a more level playing field with their overseas counterparts. They say it also provides another opportunity to boost their international equity investments when they opt to exercise their rights.

Rights issues give existing shareholders the opportunity to buy new shares at a rate that can sometimes be 50% below the market price. It is a traditional way for mainly West German and British companies to raise capital for expansion and other purposes. The offerings must be approved by shareholders.

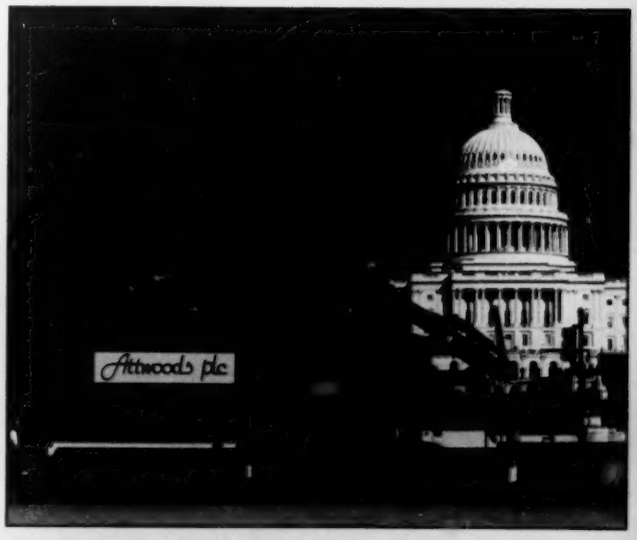
U.S. corporations seldom, if ever, use rights offerings.

In the past, regulatory, time and other constraints made it nearly impossible for foreign companies' U.S. shareholders to take part in the offerings. Instead, rights attributed to U.S. shareholders, including holders of American depository receipts, were sold abroad and the shareholders were cashed out. They didn't get the chance to buy the new shares, and sometimes lost money in the process because the cash wasn't always thought to be equal in value to the securities offered in the rights issue.

No one knows how many U.S. shareholders got left behind through the years, but there have been enough to warrant special handling of the Attwoods Group offering by the Securities and Exchange Commission.

U.S. institutions can own foreign shares by buying ordinary or preference shares or ADRs, which represent a share of stock in a foreign company. There are hundreds of foreign companies whose ordinary or preference shares are

See **Rights** *on page 30*



Attwoods Group, with the help of the SEC in Washington, extended its rights issue to U.S. shareholders.

NEWS DIGEST

Xilinx, maker of these electronic parts and other specialty semiconductors, is one of 31 venture capital-backed companies to go public this year in the rebounding IPO arena. Page 27.

The Milwaukee County Employees' Retirement System is under investigation for its relationship with Prudential-Bache Securities. Page 4.

Philadelphia Municipal Pension Fund's investment officer has withstood a legal challenge. Page 6.

The high-yield bond market is only temporarily in the doldrums and should rebound during the '90s. Page 24.

SPECIAL REPORT: COMPUTERS

Specialized software has rooted itself in the money management industry as an indispensable tool for both managers and pension fund executives. Page 17.

FINANCING

Attwoods Group's rights offering may spur other firms to include U.S. shareholders in future issues. Page 1.

TIAA's loan to Nestor-BNA underscores the growing global tilt of the private market. Page 2.

INTERNATIONAL

The specter of 1997 has Hong Kong businesses trying to safeguard pension assets. Page 3.

Pension executives use passive currency hedges more often than active strategies. Page 3.

REAL ESTATE

Withdrawal requests exceeding $1.9 billion have managers of open-end funds in a liquidity crunch. Page 1.

The Department of Labor is suing a South Florida union fund over its real estate investments. Page 1.

DEPARTMENTS

Classified	28	Money movers	26
Commentary	14	Opinion	12
Computers	17	P&I Age indexes	10
Frontlines	9	Portfolio management	25

Vol. 18, No. 17 — Pensions & Investments (ISSN 0273-5466) is published biweekly with a special edition in May by Crain Communications, Inc., 740 Rush St., Chicago, Ill. 60611-2590. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investments, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207.

Survey questionnaires in the mail

Pensions & Investments' **annual directory of master trust/custody and global custody banks, and biennial survey of pension executives and money managers on their satisfaction with master trust services, are under way. Questionnaires were mailed July 24 and are due Aug. 27. If your organization has not received a questionnaire or if you have a question about the surveys please contact Christine Philip, directory coordinator, at (312) 649-5217.**

SEC puts brokers on alert

Agency rules some soft-dollar trades are not protected

By Joel Chernoff

WASHINGTON — The Securities and Exchange Commission has sent a chill through the soft-dollar brokerage community, but it remains to be seen whether the industry will catch a cold.

The SEC effectively stopped many trades directed by money managers when it said soft-dollar-generating trades in which a broker uses its own capital do not receive special protection under securities law.

In particular, the ruling affects trades involving bonds and over-the-counter stocks. The SEC also clarified the protection does not apply to trades involving financial futures.

Between $35 million and $45 million in soft dollars were generated in 1989 from secondary-market bond trades, said Woody Canaday, principal with Greenwich Associates, Greenwich, Conn. (An additional $110 million in soft dollars are attributable to new bond issues, which are not affected by the SEC ruling.)

The National Association of Securities Dealers Inc., Washington, said $90.5 million in soft dollars were generated between July 1, 1988, and March 31, 1989, said Gene Finn, chief economist. More recent data were not available. The amount of soft dollars generated from financial futures trades is believed go be small, although no data were available.

The final word on soft dollars, however, has not been uttered. SEC officials promise to revisit the broader soft-dollar arena shortly, possibly as soon as this fall.

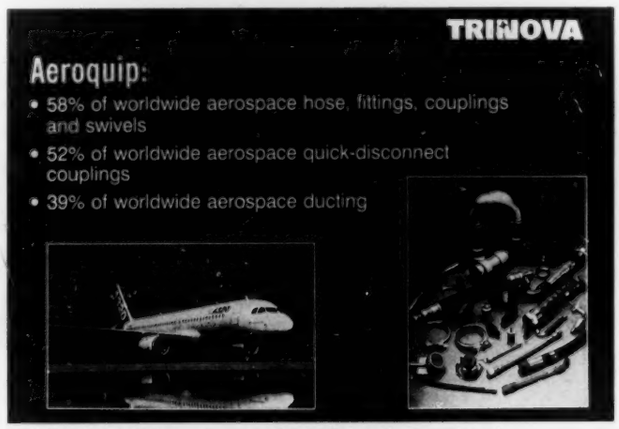
Major Wall Street firms have charged the growing use of soft dollars on the equity side has taken profitable, easy trades away from traditional brokerage houses, making them reluctant to position trades. This reluctance increases overall market volatility and decreases liquidity for stocks, they argue, although soft-dollar brokers dispute those claims.

The SEC's July 25 action, however, means a money manager cannot hide behind a securities law exemption, known as section 28(e) for the provision in the 1934 Securities Exchange Act, if the manager receives soft-dollar services for principal transactions.

Section 28(e) permits money managers to pay more than the lowest available commission on a trade if a soft-dollar credit is used to pay for investment research. But the SEC clarified the provision applies only to agency trades, in which a commission is charged, and not to principal trades, where the dealer gains a profit from the spread.

While principal trades will not automatically violate the 1974 Employee Retirement Income Security Act, Labor Department of-

See **Brokers** *on page 31*


TRINOVA
Aeroquip:
• 58% of worldwide aerospace hose, fittings, couplings and swivels
• 52% of worldwide aerospace quick-disconnect couplings
• 39% of worldwide aerospace ducting

TRINOVA is linking retirement benefits to the company's profitability through defined contribution plans.

TRINOVA switches emphasis to 401(k)s

By Leonard J. Hollie and Marcia Parker

MAUMEE, Ohio — TRINOVA Corp. is switching to a defined contribution fund strategy from a defined benefit one.

Company officials have launched six new defined contribution plans. In the process, they cut to 16 from 40 the number of employee benefit plans offered.

Down the road, the company also might start defined contribution plans for overseas employees, according to William Rose, director of retirement assets.

"We have six defined contribution plans and 10 defined benefit plans left," said Mr. Rose. "We are consolidating the plans, and the administration is simplifying as we move toward a defined contribution environment. We are putting our emphasis on defined contribution plans."

Its six defined contribution plans have $334.8 million in assets; the remaining 10 defined benefit plans have $61.7 million in assets.

"We think a defined contribution plan makes a lot more sense in today's world," said Mr. Rose. "Employees have more control over their retirement income, and their financial well-being is tied to the success of the company."

Mr. Rose said TRINOVA opted for a 401(k) as an employee incentive rather than an employee stock ownership plan because employees would have more investment options and tax incentives to save money.

"The 401(k) is a very nice vehicle to do that. It's an excellent tax shelter for employees who would otherwise not have one," Mr. Rose said.

The six 401(k) plans have four options: a guaranteed fund that uses both guaranteed investment contracts and bank investment contracts; a balanced fund; an equity index fund; and a company stock option.

No money managers were terminated as a result of the shift to defined contribution plans, Mr. Rose said. TRINOVA has eight managers, four for the defined contribution plans and four for the defined benefit plans. He said new managers may be hired if

See **401(k)** *on page 30*

TIAA deal sets private market pace

By Marcia Parker

The Teachers Insurance and Annuity Association was the sole provider of the debt financing for a U.S. acquisition by a British company.

TIAA provided $17 million to help Nestor-BNA PLC, Britain's largest nursing agency, finance its $40.8 million acquisition of MRA Staffing Systems Inc., a Fort Lauderdale, Fla., supplier to hospitals of temporary nurses and other health-care personnel.

While TIAA's investment is small, it is another sign the private placement market is becoming more international. TIAA and other U.S. investors report a surge of non-U.S. issuers seeking to raise capital privately in America.

"The private market is looking for product; we can't always get what we need domestically," said David Bullet, TIAA senior vice president. "We're seeing more deal flow from Europe and other countries."

For Nestor-BNA, the deal represents the company's first exposure to U.S. institutional investors and the U.S. private placement market. The company got cheap financing for its U.S. operations and an introduction to a major private placement investor.

In the deal, TIAA purchased dollar-denominated guaranteed senior secured notes due 1997. The equity financing was in the form of a 1-for-3 rights issue of 18 million new shares to Nestor-BNA's U.K. shareholders. The rights issue, which had to be approved by shareholders, was well received.

"It was our first acquisition in the U.S. and a relatively large acquisition for us," said Mike Rogers, Nestor-BNA's chief executive.

Although the paper work was arduous, Mr. Rogers said the private placement went smoothly.

See **Private** *on page 28*

Funds take steps to protect assets

Hong Kong firms leery of '97

By Margaret Price

As a prelude to 1997, an increasing number of large Hong Kong companies are seeking stepped up protection of their retirement assets on the chance of a future governmental grasp.

Among the safeguards are the use of an offshore trustee and currency protection.

Such moves are in preparation of China's regaining control of Hong Kong in 1997. Last year's Tienanmen Square massacre in Beijing heightened concern among many Hong Kong employees that, at the very worst, the Chinese government might someday appropriate these assets; or, if the Hong Kong dollar plunged amid a political emergency, the value of pension assets would tumble.

While many Hong Kong business executives downplay the likelihood of such crises publicly, more companies are setting up pension safeguards.

The Beijing tragedy "hit home to a lot of Hong Kong employees that they might not get their retirement benefits or that they might be worthless at some point," said Grahame Stott, actuary with Wyatt Co. (H.K.) Ltd., Hong Kong. Since June of last year, "there has been a lot of focus on safeguarding these benefits."

The new methods have little to do with the investment of Hong Kong's approximately $10 billion (U.S.) in Hong Kong pension assets. Already, some 70% of these are in non-Hong Kong-dollar investments, largely for reasons unrelated to 1997.

Instead, companies are focusing on who has the legal title to the assets — with a preference increasing for having an offshore trustee that is outside of Hong Kong's legal jurisdiction.

A common practice has been to use a trustee located in Hong Kong. The pension fund might also have within the trust documents an emergency clause, designating an offshore trustee that would take control of a plan's assets in case of an emergency in Hong Kong.

Other, perceived safer, options have been gaining popularity. These include the use of an alternative trustee who already acts as custodian, but whose authority as trustee doesn't take effect unless a perceived emergency occurred in Hong Kong; and an offshore trustee, who serves as custodian and trustee, overseeing the plan's administration and investments.

Mr. Stott estimates about $3

See **China** *on page 28*

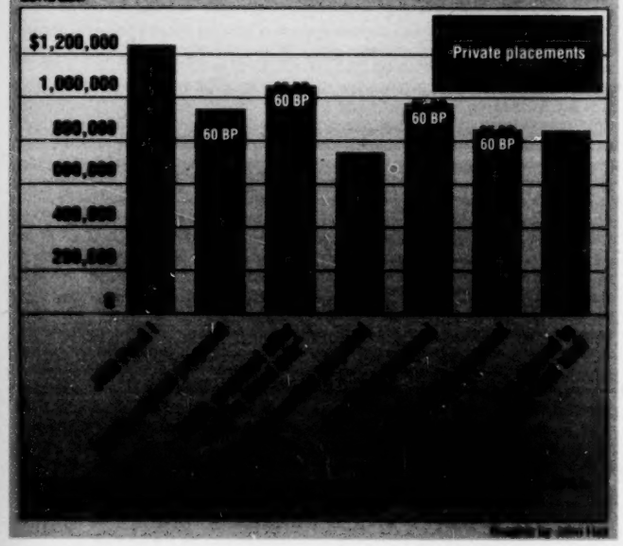
Photo by Margaret Price

Uneasiness about Hong Kong's future has some companies trying to safeguard their pension assets.

Corrected chart for D.C. Retirement Board fees

A chart detailing fee negotiations between the District of Columbia Retirement Board and Alex. Brown Real Estate Advisors, Baltimore concerning a $100 million real estate account was produced incorrectly in the July 23 issue, and should not have been attributed to Alex. Brown.

The correct chart, which was presented to the D.C. Board at a May 29 meeting by officials from Alex. Brown is reproduced below. The fee for the JMB Group Trust I, a closed-end pooled fund in which the D.C. fund already was invested, is intended to present a benchmark; JMB was not competing for the contract.



Indexing climbs 31% in year

International, especially fixed income, fuels the growth

By Leonard J. Hollie

International indexing surged for the year ended May 31, while domestic index funds advanced steadily.

Investors' search for global investment opportunities pushed international stock and fixed-income indexed assets up 54.3% and 539.3%, respectively, during the 12 months. Adjusted for market growth, the funds showed strong advances of 50.1% and 496.2%.

Domestic equity funds rose 27.8% in the year, 9.7% when adjusted for the market, and fixed-income funds rose 36.1%, 24.5% on a market-adjusted basis.

Index managers say international indexing has experienced tremendous growth mainly because it is a way to reduce risk and is less expensive than traditional international management.

"Our clients are aware that international investments limit risk and we are able to reduce risk through currency hedging," said Kevin Clark, vice president for Chase Investors Management Corp., New York. The firm has $4.2 billion in indexing, with $1.3 billion in international accounts.

Gus Sauter, vice president of core management for The Vanguard Group of Investment Cos., Valley Forge, Pa., said international indexing is popular with investors because "it counteracts the two most expensive features in international investing: transaction costs and management fees." Vanguard manages $3.096 billion in index funds, with $12 million in international equities.

As of May 31, leading index managers surveyed by *Pensions & Investments* reported $276.681 billion in indexed assets, an increase of 5.6% since Nov. 30 and 31.3% from a year earlier.

Of the total, $22.66 billion — 8% — was in international assets. As has been the case for several years, international equity funds accounted for most of those assets, but fixed-income funds are showing impressive growth. The managers reported $21.554 billion in international equity index funds, up from $21.196 billion in November and $13.965 billion a year ago. The $1.106 billion in international fixed-income, however, is up from $667 million as of Nov. 30 and $173 million the previous year.

The Morgan Stanley Capital International Europe Australia Far East Index returned −7.83% for the six-month period and 2.8% for the year. The Salomon Brothers World Government Bond Index returned 0.31% during the six months and 7.21% for the year.

David Edington, vice president at Pacific Investment Management Co., Newport Beach, Calif., said his clients want to increase their overseas investments because they see a lot of opportunity for growth in Eastern Europe and think a few countries there might provide good returns.

"The U.S. no longer has the lion's share of equity capital, and people want to increase the diversification of their portfolios," said Mr. Edington, whose firm manages $3.95 billion in index funds.

Not all managers, however, are sold on the virtues of international fund indexation.

See **Indexing** *on page 29*

Passive currency strategies draw increasing interest

By Margaret Price

With controversy still surrounding active currency management, more pension funds are using passive hedging than active strategies to protect foreign investments from currency ravages.

Active currency management has failed to win many pension fund clients so far, in part because of fears it might not add value.

"I haven't seen a track record that has consistently added value," said Sunny Oberoi, director-investments and benefit finance for the $3.1 billion fund of Pacific Gas & Electric Co., San Francisco, echoing an oft-heard theme. Since January, his fund has been using passive hedging — where foreign exposure remains hedged at all times — for 80% of the fund's approximately $400 million in foreign investments.

According to Wilshire Associates, Santa Monica, Calif., about $3 billion of U.S. pension funds' approximately $83 billion in international assets are managed by "currency overlay" managers who actively handle all or parts of clients' currency exposure. Experts also estimate pension funds use passive hedging on at least $5 billion of foreign assets. "Dynamic hedging," a form of portfolio insurance against currency's ill effects, is used on about $1 billion of international assets.

Users consider passive management — where currency hedges are imposed and left on — to be a shield against currencies' gyrations. Passive hedging relieves investors from the task of determining currencies' paths — a judgment many investors say they can't make consistently.

Richard McGahan, director-pensions for the $10.5 billion fund of Pacific Telesis Group, San Francisco, said his fund started passively managing an undisclosed amount of currencies in-house almost 1½ years ago. The fund, which uses currency futures for its hedging program, "had no idea which way the dollar was going."

He said the fund had netted a "large gain," in part from the dollar's previous fall, that the fund wanted to lock in.

At least temporarily, PacTel officials have ruled out use of currency overlay. Mr. McGahan said "we don't know if it's possible to

See **Currency** *on page 31*

EPIC

Because investment performance depends on reliable data.

Why do top managers rely on EPIC for accurate and timely information? This remarkable software package features a comprehensive database of 2000 common stocks, each characterized by 76 data items — including proprietary analyses to predict future performance.

Developed by Ford Investor Services — provider of the industry's cleanest data since 1970 — EPIC is available with weekly or monthly updates, and I.B.E.S. earnings expectation data. All for a reasonable fee.

Join investors who manage more than $800 billion collectively. With EPIC.

To learn more about EPIC, call (619) 755-1127.

Ford INVESTOR SERVICES, INC.

11722 Sorrento Valley Road, Suite I • San Diego, CA 92121

Consulting dispute leads to investigation

By Curtis Vosti

MILWAUKEE — The county prosecutor's office is investigating the recently ended 14-year relationship between Prudential-Bache Securities Inc. and the $750 million Milwaukee County Employees' Retirement System.

The white-collar crime unit of the Milwaukee County District Attorney's office has requested and received background information not included in the so-called Payne Report on the county's investment practices, according to Barbara Horton, secretary of the County Retirement Board.

Karen Christianson, an assistant district attorney in charge of the investigation, declined comment.

The report, issued in November, recommended the board end its ties with Pru-Bache because of the board's lack of knowledge of payments made to Pru-Bache consultant Gene Gilbert by investment management firms the board hired on Mr. Gilbert's recommendation.

The report, authored by former Wisconsin Securities Commissioner Ulice Payne Jr., also criticized the board for not knowing how much it paid Mr. Gilbert through its soft-dollar arrangement, which allowed that 30% of equity trades through its managers be directed through Pru-Bache. The board's new manager, William M. Mercer Inc., has agreed to assign a hard dollar value to its soft dollar arrangement, one reform Mr. Payne suggested.

His report also criticized the board for not knowing its duties and for not conducting a performance review of Mr. Gilbert since he was hired in 1976.

Despite the objections of then-Board Chairman Arthur Saltzstein, the board voted in June to hire a new consultant. Mr. Saltzstein also was replaced as board chairman. The new chairman will be elected during the September board meeting. The board traditionally recesses in August.

The Payne Report was prompted by the October resignation of Duamel Vellon, system coordinator and board secretary. In his resignation letter, Mr. Vellon said he was concerned about "conflicts" between Mr. Gilbert and the system's money managers. Mr. Vellon also released an Oct. 10 interoffice memo from The Boston Co., which the system had chosen earlier to manage a $100 million index fund portfolio.

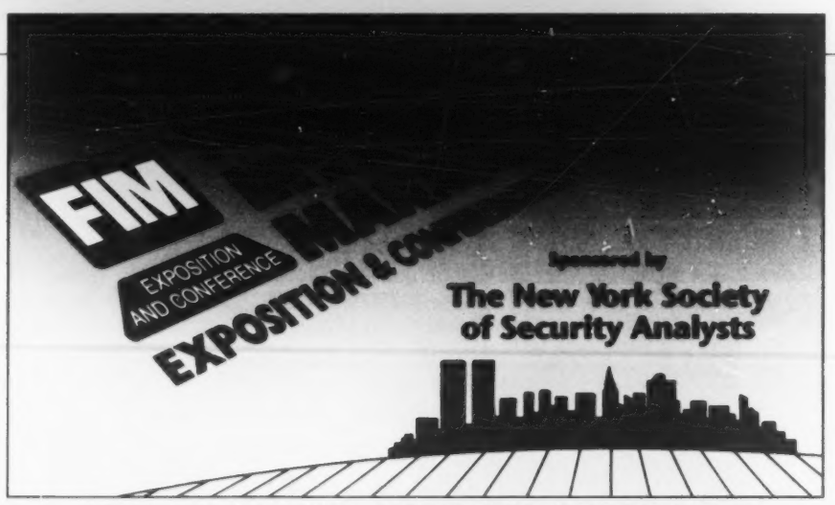
"Gene Gilbert at Prudential-Bache (Milwaukee) was very helpful to us in winning this account," the memo said. "As a result, he has requested that (we) do some trading through Prudential-Bache."

Later, the memo said: "Please do not do all the trades for Milwaukee County through Pru-Bache."

Mr. Vellon could not be reached for comment. Mr. Gilbert has denied wrongdoing and calls to his Milwaukee office were referred to Pru-Bache's New York press office.

"We are not aware of any investigation and we have not been contacted," said a Pru-Bache spokeswoman. She said the Payne Report found "no impropriety at all" by Pru-Bache or Mr. Gilbert.

Mr. Saltzstein said he had not been contacted about the investigation. ■



SEPT. 12-13,1990, NEW YORK HILTON HOTEL
West 53rd Street & 6th Avenue, New York

REGISTER FOR THE FINEST 2-DAY QUANTITATIVE & INVESTMENT PROGRAM IN OUR 6-YEAR HISTORY.

Here's Some of the Nation's Leading Authorities Serving as Speakers and Moderators:

Robert D. Arnott
First Quadrant, Los Angeles

Michael R. Bloomberg
Bloomberg Financial Markets, New York

Evan H. Schulman
MJT Advisors, Boston

Dr. Stephen A. Ross
Professor, Yale School of Management, New Haven

Joseph R. Schmuckler
Nomura Securities, New York

William E. Jacques
Martingale Asset Mgmt, Boston

George H. Boyd
Kidder Peabody, New York

Richard A. Crowell
PanAgora Asset Mgmt, Boston

Robert E. Hendricks
Holt Value Associates, Chicago

Dr. Richard O. Michaud
State Street Bank, Boston

Jess B. Yawitz
National Investment Services, St. Louis

Select the sessions of your choice. Save by registering for full day. Each Session $35. Full Day Discounts Apply before Aug. 15

Weds, Sept. 12 Day One
1. Asset Allocation 8:30-10:15 Free Session
2. Stock Selection/Cash Flow Analysis. 11:00-12:15
3. Fundamental Analysis/Data Base with CD Rom. 11:00-12:15
4. Portfolio Optimization. 2:00-3:15
5. Using Computers: Research and Investment Mgmt. 2:00-3:15
6. Global Markets: Intl Programs 3:45-5:00
7. Fixed Income: Spread Analysis. 3:45-5:00
8. Luncheon Program: The Limits of Technology, M.R. Bloomberg

Day One Total of 4: $140 including lunch.

Thurs, Sept. 13 Day Two
10. Multifactor Models for Stock Selection. 8:30-10:00 Free Session
11. Advanced Trading Systems. 11:-12:15
12. In-House Investment Data Analysis with Computers. 11:-12:15
13. Global Trading Strategies: Front/Back Office Linking. 2:00-3:15
14. Luncheon Program: NYSSA's Technology at Work on Wall St.

Day Two Total of 3: $105 including lunch.

REGISTER TODAY by FAX or Mail. Major Credit Cards Accepted. Save $25. on 2-Day Program @ $220. (5 Sessions, 2 Lunches, Value of $245.) Individual Sessions @ $35. Free General Sessions. Free Show.

DISCOUNT TICKET

SHOW HOURS:
Wednesday, Sept. 12 10-6
Thursday, Sept. 13 10-3

FREE SHOW ORDER FORM
REGISTER FOR SHOW OR CONFERENCE
MAIL, FAX, BRING
Fax (212) 286- 0086

PHOTOCOPY FOR MORE THAN ONE SHOW BADGE

Indicate Session Numbers 1_ 2_ 3_ 4_ 5_ 6_ 7_ 8_ 10_ 11_ 12_ 13_ 14_
Amex Visa MC Exp.Date ___/___
Card # _____
In Name of _____
Amount $ _____ $35 x Session(s) less 2 day discounts

FIM-NY
Flagg Management Inc
PO Box 4440,
New York, NY 10163
Free Show

First Name M.I. Last Name
Title Phone
Company
Street
City, State Zip

CORRECTIONS & CLARIFICATIONS

• The plan asset total for **BellSouth Corp.** was reported incorrectly in the balance sheet on page 23 of the July 23 issue. BeliSouth has $10.857 billion in defined benefit pension fund assets.

JUNK BONDS

And in the center ring, ladies and gentlemen . . .

) "Because the world is round, ecause the symbol of life, unity nd the Creator is the circle, the rcus is performed in a ring. If we re willing participants, we are rawn into that ring by the perrmers."

No, it's not the opening of a self-lp book. Tally Embry, president of agten Asset Management Corp., ew York, is waxing poetic about e high-yield market.

In a recent report to the high-eld bond manager's clients, Mr. mbry fashioned a circus analogy r the junk-bond market.

"In the center of the circus ngs, far above the rest of huanity, high in the heavens, oser to God, one person will attempt death-defying feats . . . At the present time, the junk-bond market is not defined by the action in the outer rings. There are performances being played in the center ring — death-defying acts that have all eyes riveted to see if the performers will survive. Alan Bond, Robert Campeau, Bill Farley, Merv Griffin . . . have all fallen while high above the circus floor. . . . First Boston, Shearson, Kidder Peabody, Merrill Lynch and Drexel Burnham Lambert performed the roles of catchers to these trapeze artists. One catcher died, and the rest were injured."

"We know from the circus that life goes on after the performance is over. People such as ourselves come out to clean up after the performance. We look at the debris with the bright house lights on and look for dropped change."

Broom and dust pan in hand, Magten has sifted through the debris and found attractive investments in **Bond Brewing** "because Australians drink beer;" **Federated** and **Allied Stores** "because they are attractive places to shop;" **Resorts Hotels** "because people gamble;" **Community Newspapers** "because stores advertise in local papers to reach people who buy local newspapers to read about their hometown;" and **Eastern Airlines** "because we are secured by world-class equipment."

eath-defying circus acts and junk bonds have something in common, one money manager believes.

BANKRUPTCIES

Assets growing as steamroller continues to rumble

Public bankruptcies continued swell during the first half of 90.

Total assets of public comnies filing for Chapter 11 are owing even though the number companies filing for bankptcy protection is in line with — perhaps slightly below — that past years, according to The rnaround Letter, a publication New Generation Investments ., a manager of distressed serities in Boston.

These new Chapter 11 filings are providing a steady crop of bankruptcy securities for investors. The 49 companies filing through June 15 had a total of 54 classes of bonds with an aggregate principal amount of more than $5 billion.

More big bankruptcies are likely as companies find themselves unable to make debt payments, the publication said, noting "even Donald Trump seems to be brushing up his knowledge of the bankruptcy laws these days."

Bankruptcy assets growing

Year	No. of cos.	Total assets*
1986	159	12,729
1987	113	40,654
1988	126	43,518
1989	136	72,698
1990**	49	55,567

*In millions of dollars, from annual report prior to bankruptcy filing.
**Through June 15
Source: New Generation Investments Inc., Boston

INVESTING

South Africa-free portfolios eke by

Potomac Asset Management ., Washington, and First Asset nagement, Minneapolis, had top-performing South Africae equity portfolios in the first arter, according to Brian Rom rp., New York.

Potomac led equity-plus-cash rtfolios with a 3.7% return, folred by IDS Equity Advisors, neapolis, with 0.76%. Among ity-only portfolios, First Asset nagement had a 1.2% return, followed by Smith Barney Capital Management, New York, at 1.1%.

The median South Africa-free equity-plus-cash portfolio was down 2.7% in the quarter and the median equity-only portfolio was down 3.2%. The Standard & Poor's 500 Stock Index lost 3% in the quarter, while a South Africa-free version of the index was off 3.2%. Median unrestricted portfolios, as measured by the Wilshire Cooperative Universe, were down 2.6% (equity plus cash) and 2.9% (equity only).

For the 12 months ended March 31, Provident Investment Counsel, Pasadena, Calif., had the top equity-plus-cash return, 29.4%, followed by IDS Equity, with 26.8%. Among equity-only portfolios, First Asset Management led with 25.4%, followed by Harbor Capital Management, Boston, with 23.5%.

The median South Africa-free equity-plus-cash portfolio returned 14.3% for the year and the median equity-only portfolio returned 13.8%. The S&P was up 19.2% and the South Africa-free index, 18.3%. Returns for median unrestricted portfolios were 13.5% for equity plus cash and 16.6% for equity only.

LBO investments by selected insurers

Company	$ bils. as of Dec. 31: Invested assets	LBO investments	LBOs as % of invested assets	Insurance financial strength
Equitable Life	45.3	3.7	8	Aa3
Prudential	102.3	6.1	6	Aaa
Conn. General	22.9	0.7	3	Aaa
Northwestern Mutual	26.2	0.7	3	Aaa
New York Life	44.7	1.1	3	Aaa
Metropolitan Life	92.7	2.0	2	Aaa
Travelers	31.2	0.7	2	Aa2
John Hancock	27.3	0.5	2	Aaa
Massachusetts Mutual	21.9	0.3	2	Aaa
Aetna Life	45.0	0.4	1	Aaa
TOTAL	459.5	16.2	4	

Source: Moody's Investors Service, New York.

INSURERS

LBOs causing a bit of perspiration

■ Higher charge-offs and nonperformers among the life insurance companies' LBO investments should weaken investment performance of the more heavily exposed insurers, according to Moody's Investors Service.

But actual losses should not be life threatening.

In a special report, the agency said it is concerned about the long-term performance of some highly leveraged transactions. Moody's said the majority of major life insurance companies' have about 2% to 3% of their invested assets in LBO investments, which is an increase of about 1% during the past 15 months. Investments in LBOs represent about 30% to 40% of the companies' statutory capital. Of the $459 billion in invested assets of 10 leading insurance companies, about $16.2 billion, or 4%, is invested in LBOs.

The ratings agency said it was concerned about the significant exposure to LBO investments at The Equitable Life Assurance Society of the United States and Prudential Life Insurance Co. of America. But the worry is cushioned by the fact that most of their LBO portfolios are in secured, private LBO financing, which Moody's expects will have lower loss content than unsecured, public market LBO debt.

Moody's stressed overall major life insurance companies have managed their exposure to these financings prudently, and the industry's exposure level remains small relative to capital.

MERGERS

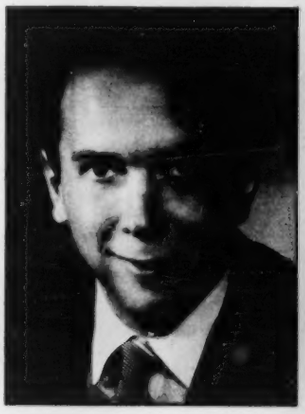
Firm helps sweep out the corners

■ Mergers can be a messy affair, and no one knows that better than Alexander B. Miller.

Mr. Miller is president of Shareholder Communications Corp., a shareholder relations consulting firm that just launched a service aptly named Postmerger Cleanup.

The service includes three programs to expedite the merging of unwieldy shareholder bases, saving corporate secretaries time and money on record-keeping and shareholder questions.

The unavoidable side effect of any merger or acquisition is a large number of unexchanged shareholder accounts. Many corporations are left with unexchanged shares caused by stock-for-stock or stock-for-cash deals. The service makes it easier for holders of small numbers of shares or "odd lots" to exchange their shares.



Alexander Miller's firm helps clean up after corporate mergers.

INTERNATIONAL

British Coal wins control of trust

■ The British Coal Board Pension Funds has won its battle for control of London-based Globe Investment Trust PLC now that several large institutional investors finally have decided to cash in their stakes.

The fund's holdings stood at almost 72% of shares July 12. That same day, the board of Globe Investment, Britain's largest investment trust, unanimously recommended accepting British Coal's offer of 205 pence (or about $3.71) per share.

The fund's original offer, revealed in April, was 1.91 pence (or about $3.45) per share.

The $20 billion pension fund is trying to acquire a 100% stake in Globe.

According to analysts, British Coal wants to buy Globe Investment Trust to invest almost 500 million pounds (or about $900 million) in the United Kingdom stock market with minimal market impact.

Ruling

Continued from page 6

the only legal avenue available.

"The issues as far as I'm concerned are independence and experience," he said. "That's the only issue involved. Everything else is clouding it."

"We are concerned that the finance department not control the pension fund, especially the direction of investment," he said.

Ms. Poitevien, 29, was hired as an aide to Finance Director Elizabeth Reveal in August 1988, after graduating from the John F. Kennedy School of Government at Harvard University.

Since then, she has served as Ms. Reveal's adviser on the pension board and functioned as the chief investment officer for the Philadelphia Gas Works Retirement Reserve.

City Treasurer and Pension Board Chairman Benjamin Blakeney discounted Mr. Campione's allegations that Ms. Poitevien could not be independent of the board of finance.

"The CIO can't act unilaterally," said Mr. Blakeney. "The individual is totally accountable to the board, and Tina clearly would not be exempt from that standard.

"To the extent that you have a dissenting contingent within the pension board stating its concern about Tina's independence from the finance board, my response would be nothing passes through the board's ranks unless the board approves it."

Ms. Reveal acknowledged some candidates had more years of investment experience, but she said they lacked experience working for a public pension fund.

The pension board subcommittee that made the recommendations calculated a weighted average for each candidate based on 10 criteria, among them experience, education and exposure to public pension plans, according to Ms. Reveal.

"She came out with the highest ranking," she said.

As chief investment officer of a public fund, "you have to deal with a board of trustees . . . with competing agendas," Ms. Reveal said.

"It's a complex process and those not in the public sector can't do it effectively.

"She has demonstrated that she can do this. She knows this fund better than anyone."

In his suit, Mr. Campione asked Judge Gafni to "rescind and/or void the official action directing the hiring of Tina Poitevien" and to "reinstitute the selection process."

In the complaint, attorneys for the plaintiffs alleged "hiring of a non-citizen of the United States of America as an employee of the Board of Pensions and Retirement patently violates the requirements of the Philadelphia Home Rule Charter" that "any employee of the city of Philadelphia must be a citizen of the United States."

City Solicitor Ralph Teti argued successfully that "blanket citizenship provisions such as those set forth in section 3-306 of the charter have been determined violative of equal protection since 1973 when the city amended its civil service regulations to conform to the law as set forth" in a U.S. Supreme Court decision.

"Plaintiffs are about 17 years late in their quest for enforcement of the citizenship requirements of 3-306 of the charter," Mr. Teti argued.

"Most recently, the Congress of the United States passed the Immigration Reform and Control Act of 1987, which specifically prohibits discrimination based on citizenship status," he said. ■

Indexing

Continued from page 3

"We no longer have any global index assets under management," said John Goodwin, vice president for The Northern Trust Co., Chicago. "We found that it was more cost effective to manage them actively. The replication costs were just too high for the amount of assets we had." Northern Trust, with $1.58 billion in indexed assets under management, had $55 million in global accounts just six months ago, but has none now.

Domestically, indexed assets totaled $243.361 billion May 31. Equity funds accounted for $175.96 billion, compared with $170.007 billion Nov. 30 and $137.667 billion a year earlier. Fixed-income funds comprised 27.7% of domestic indexed assets, or $67.401 billion, compared with $59.721 billion six months ago and $49.513 billion 12 months earlier.

The Standard & Poor's 500 Stock Index returned 6.14% for the six-month period and 16.48% for the year. The Shearson Lehman Hutton Government/Corporate Bond Index returned 0.94% for six months and 8.84% for the year.

Some managers said they see a trend away from the S&P as a benchmark, and into such things as customized indexing where there is a distinct management style and characteristic; a more dynamic style with a general objective that is defined by the client as to how the portfolio should be managed; and a move to other indexes such as the Wilshire 5000 Value Weighted Index.

"The trend away from the S&P is because it has done so well and may not be able to do well in the future," said Scott Stewart, senior vice president of Fidelity Management Trust Co., Boston. "As you go beyond the S&P, you think about active managing," he said. Fidelity has $401 million in indexing. ■

Leading index fund managers
($ millions - as of May 31)

Company	Total	Domestic equity	Domestic fixed	Int'l equity	Int'l fixed
Wells Fargo	77,154	48,538	24,196	4,198	222
Bankers Trust	44,300	37,000	4,100	3,100	100
Mellon Capital	28,227	23,074	4,507	646	0
State Street Bank	27,728	17,008	2,437	8,164	119
ANB Investment[a]	10,500	NA	NA	NA	NA
Alliance	7,885	7,191	21	673	0
PanAgora Asset Mgmt.	6,876	4,476	1,597	405	398
Mellon Bond	6,600	0	6,600	0	0
GE Investments	5,643	5,643	0	0	0
Dimensional Fund	5,568	3,900	733	935	0
Manufacturers Nat'l Detroit	4,537	4,500	33	4	0
Wilshire	4,211	4,211	0	0	0
Chase Investors	4,200	1,900	1,000	1,300	0
Pacific Investment	3,950	750	3,200	0	0
T. Rowe Price	3,950	315	3,635	0	0
Lincoln Capital	3,800	0	3,800	0	0
Vanguard	3,096	2,927	157	12	0
Chancellor Capital	1,672	1,527	120	25	0
INTECH	1,650	1,400	0	250	0
Northern	1,580	1,305	275	0	0
Prudential Fixed Income	1,410	0	1,410	0	0
Travelers	1,357	882	185	266	24
Putnam	1,220	0	1,220	0	0
Lehman Ark	1,196	0	1,196	0	0
BEA Associates[b]	1,191	1,191	0	0	0
Security Capital	1,170	0	1,058	0	112
Lehman Mgmt.	1,133	0	1,133	0	0
Sears	1,015	920	0	95	0
Nikko Capital	943	657	0	286	0
Mitchell Hutchins	920	255	665	0	0
Advanced Investment	880	870	10	0	0
WR Lazard	859	0	859	0	0
Axe-Core	850	500	0	350	0
Aetna Life	803	475	328	0	0
Boston Int'l	799	0	0	799	0
Smith Barney	770	0	770	0	0
NCNB Texas	740	740	0	0	0
ASB Capital	650	650	0	0	0
First Wisconsin[c]	520	115	405	NA	NA
Capstone Asset	500	500	0	0	0
Boatmen's	487	470	17	0	0
Ryan Labs	460	0	460	0	0
Harris Trust	440	440	0	0	0
Atlantic Portfolio	439	0	439	0	0
Fidelity	401	400	1	0	0
Associated Capital	350	294	56	0	0
Monitor Capital	314	116	152	46	0
Bear, Stearns	292	0	292	0	0
RXR Group	291	NA	NA	0	131
Old Kent Bank	280	280	0	0	0
Todd Investment	258	0	258	0	0
NBD Bancorp	255	255	0	0	0
Metropolitan Life	181	181	0	0	0
The Clifton Group	180	104	76	0	0
Total	**276,681**	**175,960**	**67,401**	**21,554**	**1,106**

[a] - As of Nov. 30
[b] - As of March 31
[c] - $6 million in international indexed assets is managed on First Wisconsin's behalf by State Street, and is included in State Street's figures.

Pensions&Investments

P R E S E N T S

IN CONJUNCTION WITH ALEXANDRA SCOTT, PRESIDENT, IBF CONFERENCES

THE P&I GLOBAL INVESTMENT MANAGEMENT AND OPPORTUNITIES CONFERENCE

NEW!

- **An international forum for pension fund managers and institutional investors**
- **November 14 & 15, 1990**
  Windows on the World • New York City

AMONG THE TOPICS TO BE DISCUSSED:

- How Much Should be Invested Internationally?
- Building a Global Portfolio
- Where Should Pension Funds be Invested Worldwide? . . . Key Markets
- International Private Placements
- European Growth Stocks
- Selecting International Money Managers

CONFERENCE REGISTRATION FORM

To register for the Global Investment Management Conference:

- Call IBF Conferences in New York at (516) 229-2375, *or*
- FAX IBF at (516) 229-2386, *or*
- Mail this completed form to: IBF Conferences, 50 Charles Lindbergh Blvd., Suite 400, Uniondale, New York 11553.
- Registration fee: $1095. Special rate to Plan Sponsors: $495.
- Early Bird discount of $100 if you register before September 14.

Name _____ Title _____

Company _____

Street _____

City _____ State _____ Zip _____

Country _____ Telephone ( ) _____

☐ PAYMENT ENCLOSED.
☐ PLEASE BILL ME.
☐ I DO NOT WISH TO REGISTER AT THIS TIME, BUT PLEASE KEEP ME INFORMED.